



Knight Bros.

•1999 B&W RAM II Presentation

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

2077369979

Feb. 5 '99 10:07

0000

LYNDA DAWSON

TEL:

Jan 28, 99 12:04 No.002 P.02

P. 2

Background

- We are moving into an environment where prices will be significantly higher and communication opportunities fewer and far between**
 - 4 price increases in the last 12 months
 - Higher FET and anticipated settlement costs
- Competition is at an all time high across retail channels, with channel overlap, Category Killer emergence**
- Threat of restrictive manufacturer trade programs**

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

2077369980

TEL:

Jan 28, 99

12:04 No.002 P.03



New Retail Environment Projection

- Tobacco will continue to be a highly profitable category
- Competition at every level will be keen
- In the case of manufacturers' and retailers, the winners will be those with the fastest feet and strongest commitment to the category
- Those that commit to the category will be able to grow their business and profit significantly at the expense of those who don't

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

2077369981

TEL:

JAN 28.99 12:04 NO.002 P.04



Brown & Williamson *Trade Philosophy*

Our trade philosophy can be summed up in one word:

“Inclusivity”

- **We believe that it is in everyone's best interest that all tobacco industry players - manufacturers, wholesalers, retailers and most importantly consumers - be allowed to operate and compete freely within the cigarette retail universe**

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

2077369982

Jan 28, 99 12:04 No.002 P.05

TEL:

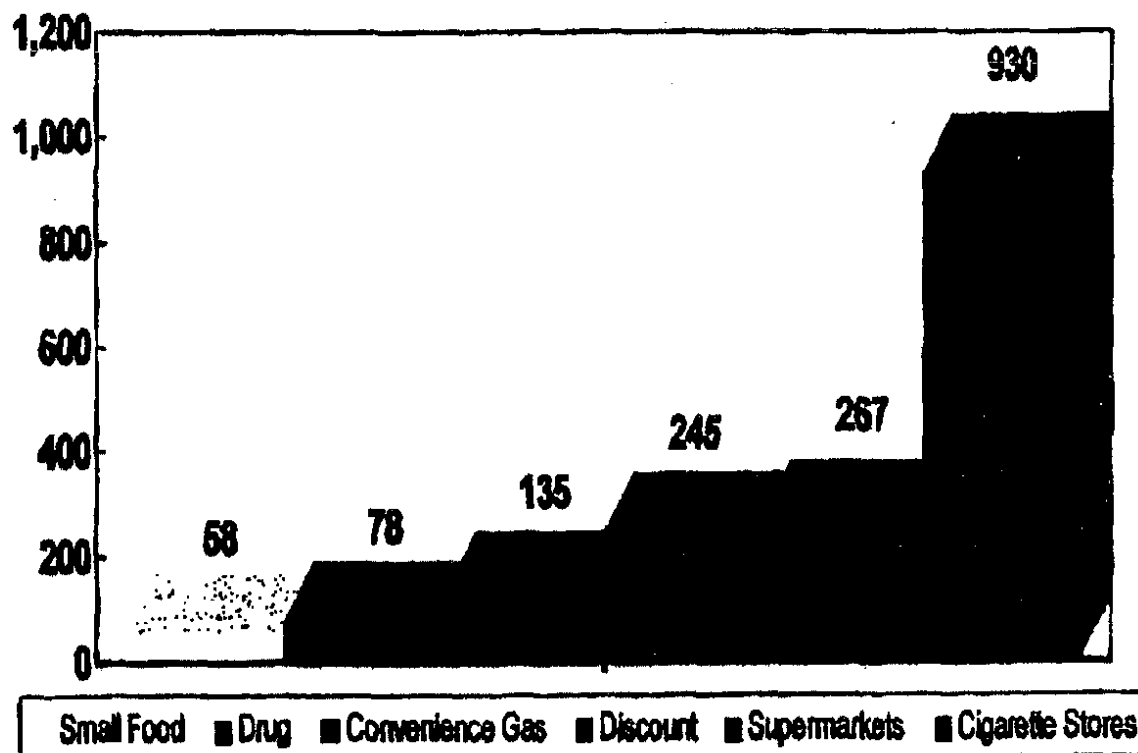
BRON LYNCH DRESON

Feb. 5 '99 10:10



Average Weekly Carton Volume Per store

Retail Store Universe By Trade Class



2077369983

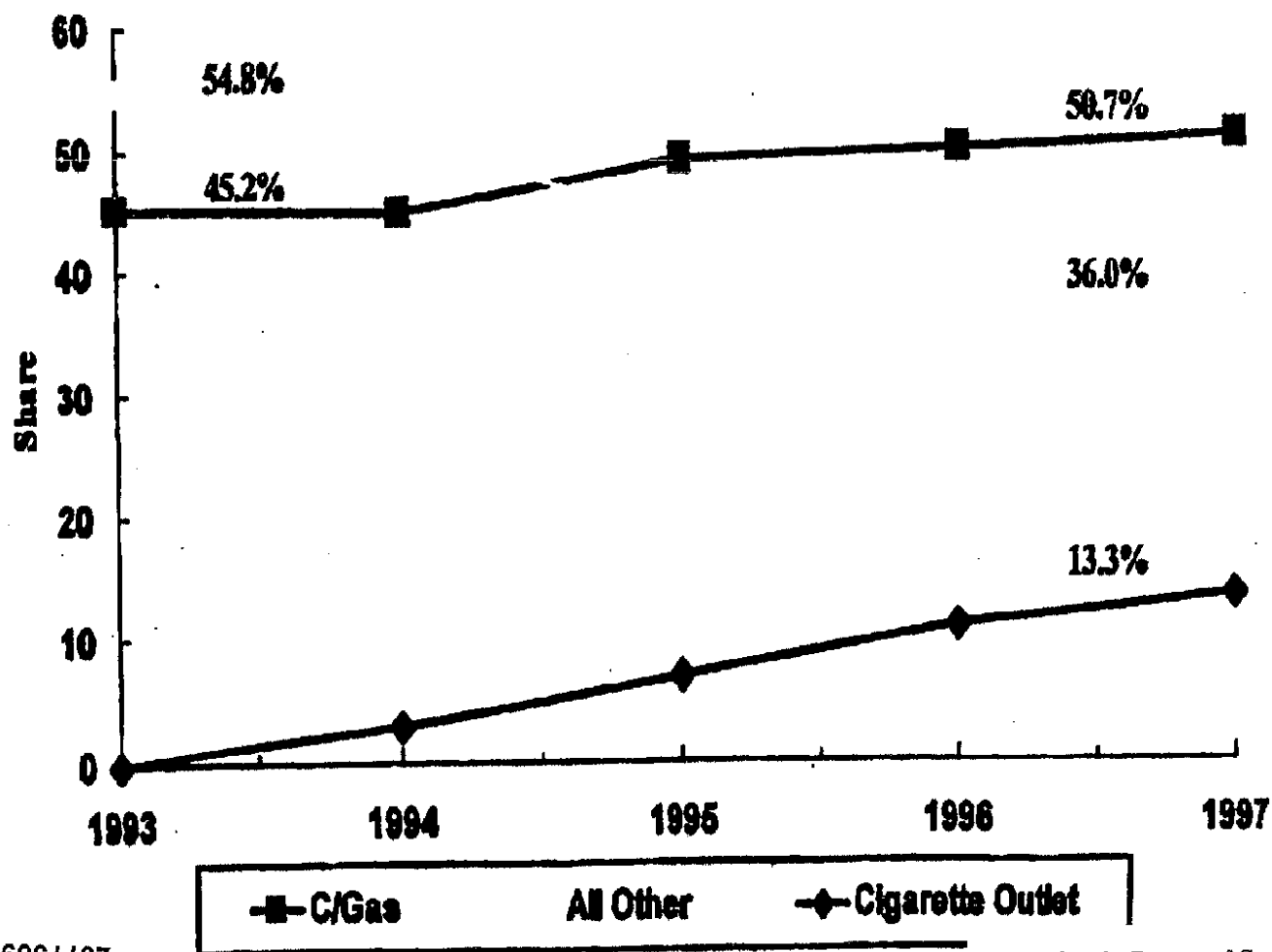
Prepared at the Request of Counsel
(RJ Reynolds Litigation)

NACS Tobacco Marketing for C-Store Operators. Mever & Associates 1996 study

Feb. 5 '99 10:08 0000 LYNDIA DRAUSON TEL: Jan 28, 99 12:06 No.002 P.06 P. 4



Industry Volume Distribution Trends



207369984

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

© 1998 RJR Tobacco Co. Research for NAC/CS Leadership Assembly Feb 22, 1998

Feb. 5 '99 10:09 2000 LYNDIA DRISCOLL
TEL: Jan 28, 99 12:06 No. 002 P. 07

TEL:

Jan 28,99 12:06 No.002 P.08

Prepared at the Request of Counsel
(RJ Reynolds Litigation)



**BROWN & WILLIAMSON
TOBACCO**

Communication Program

LEVEL C

Premium Communication

1. Provide between 20% - 25% of contiguous Premium Communication Space^{*} at point of sale (to include header, product waterfall and promotional display area) on a FlexMaster 2010 display competitor or store-owned fixture. In-store fixturing must be able to accommodate agreed plan-o-grams.
2. High profile indoor/outdoor communication devices total must be no less than B&W's share of Premium Communication Space, as determined by B&W.

Visible Merchandising

1. Allow clearly visible merchandising of remaining B&W products immediately beneath B&W's Premium Communication Space. Merchandising space must be at least equal to B&W's market share, or as agreed by B&W.
2. B&W product share of space on all in-store industry satellite fixtures must be at least equal to B&W's market share, or as agreed by B&W.

**See Premium Communication Space Definition attachment.*

2077369985

LMO

LMO

TEL :

Jan 28.99 12:07 No.002 P.09

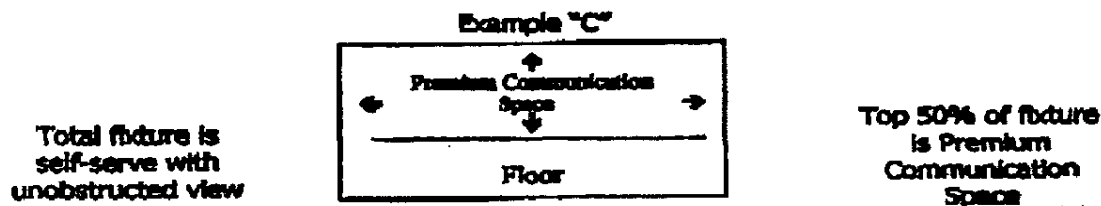
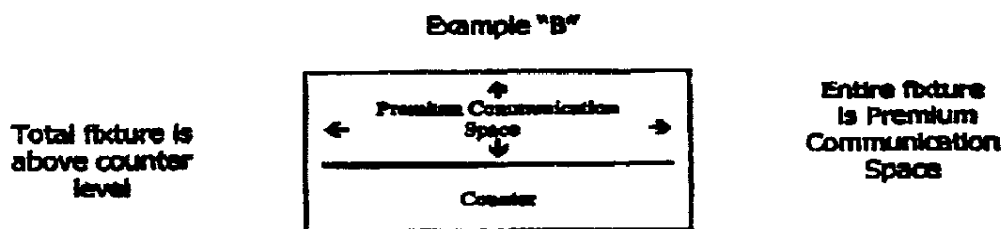
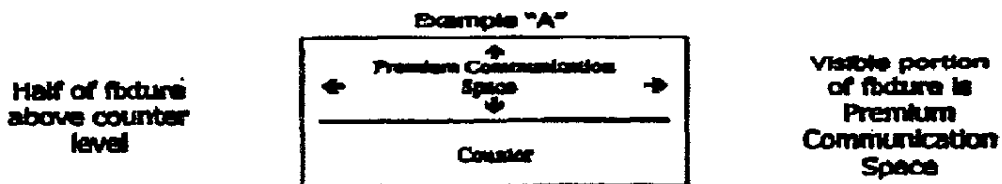
Prepared at the Request of Counsel
(RJ Reynolds Litigation)



**BROWN & WILLIAMSON
TOBACCO**

PREMIUM COMMUNICATION SPACE DEFINITION (ATTACHMENT)

Premium Communication Space is defined as follows:



2077369986

TEL:

Jan 28.99 12:08 No.002 P.11

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

Knight Bro



**BROWN & WILLIAMSON
TOBACCO**

Communication Program

Requirements

1. Available to Carton or Pack selling outlets.
2. Qualified self-serve and non-self-serve outlets can participate.
3. Sell a minimum 100 (CPW) Total Industry.
4. Provide Premium Communication Space in accordance with respective program level (A through E) participation requirements.
5. Provide additional visible facings as agreed with B&W.
6. Distribution of B&W brands in all price tiers as determined by B&W.
7. Limit out-of-stocks for B&W products and ensure that sufficient product distribution is available to meet consumer demand as agreed by B&W.
8. Retailer agrees to price all B&W products fairly and competitively compared to competing brands (before applying manufacturer discounts and promotions). Retailer's everyday price difference between B&W premium and value brands shall be at least an amount acceptable to B&W, and retailer shall not up-charge B&W products versus comparably priced competitive products (before applying manufacturer discounts and promotions). Subject to the above "minimum difference - maximum price" provisions, retailer is free to set its own prices on all products and to maintain lower prices than those resulting from B&W's minimum acceptable price differences.
9. Allow B&W to communicate retail price of B&W products to the consumer as determined by B&W.
10. Allow B&W to promote on a fair and equitable basis to the extent competition is promoted.
11. Participate in B&W's pre-pack shipper program and all other promotional programs offered by B&W (including, but not limited to, displays, new brands, etc.), and ensure merchandising to be appropriate as determined by B&W.
12. Ensure B&W consumer promotions are sold to consumers only and not retailers.
13. Provide accurate B&W sales volume data (obtained from regular, authorized B&W distribution channels) as determined by your B&W representative.
14. Maintain "We Card" or equivalent signage.

2077369988



Financial Analysis

- **RDA Payment**

- \$217/store/month

Level C
✓

- **Promotional Activity**

- Kool- 52 wks @ \$3.00/carton

- Plus .50/carton accrual for pulse programs

- GPC-52 wks @ \$4.00/carton

- Plus .50/carton for pulse programs

- Misty- 52 wks @ \$2.00/carton

- **Promotional Activity is ongoing with no restrictions to time frames**

207736988

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

Feb. 5 '99 10:12
0000 LYNDIA DAUSON
TEL:
Jan 28, 99 12:09 No. 002 P. 12
P. 9



Background

- **The world has changed with regard to the marketing of tobacco products**
 - **Existing and pending legislation have already impacted and will continue to change the way cigarettes are sold.**
 - **This will change the way manufacturers, wholesalers and retailers approach the category**

2077369990

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

Feb. 5 '99 10:12

0000 LYNDIA DAWSON

TEL:

Jan 28, 99

12:09 No. 002 P. 13

P. 13



Financial Analysis

- Annual Impact RDA's (Based on 7 stores)

– 7 x \$217 x 12 months = \$18,228.00

- Annual Impact Promotion Dollars

– Kool	\$4,200	3.00 <i>df</i>
– GPC	\$3,000	4.00 <i>df</i>
– Misty	\$1,600	2.00 <i>df</i>
– <u>Accruals</u>	<u>\$1,000</u>	

- Total Promotional \$9800.00

- Total Annual Support \$28,028.00

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

2077369991

Feb. 5 '99 10:13

0000 LYNDIA DAWSON

TEL:

JAN 28, 99

12:09 No. 002 P. 14

P. 11



Spend Rate Comparison

- **\$4.54 Per Carton on all B&W Volume**

2077369992

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

TEL: JAN 28, 99 12:10 No. 002 P.15

ISON

Contract Comparison

253.00

BROWN &
TO

L3 (PM only)

329/mth x 7 stores = \$2303.00
• Annual \$27,636.00

L2 (PM & B&W)

452/mth x 7 stores = \$3164.00
• Annual \$37,968.00

ference

\$10,332.00 per year

A's

13% of Yr Profit

TEL:

Jan 28, 99 12:11 No. 002 P. 16

2077369993

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

Opportunity Cost

e Profit Analysis

	FR	VFM	Avg
Selling Price	25.90	21.90	25.30
Cost	20.00	17.25	19.64
Profit	5.90	4.65	5.60
Up %	28%	27%	27.6%
at Sales	84%	16%	

Gross Profit \$290,580.00
Sales Volume \$1,287,441.00

2077369994



• CPL3

– \$329

• A

• CPL2

– \$45

• A

• Differ

• RDA

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

TEL:

Jan 28.99 12:11 No.002 P.17

MESSAGE:

WHAT YOU ASKED FOR!!
PLEASE ALLOW ME TO MAKE A FULL PROTESTION
BEFORE YOUR SIGN UP PM. IN ANSWER IT WY
BE LEAVE THE LETTER.

TOTAL PAGES (including cover sheet): 3

If you have any problems receiving this fax, please call us immediately. Thank you!

2077369996

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

Feb. 5 '99 10:15

0000 LYNDA DAUSON

P.13

TEL:

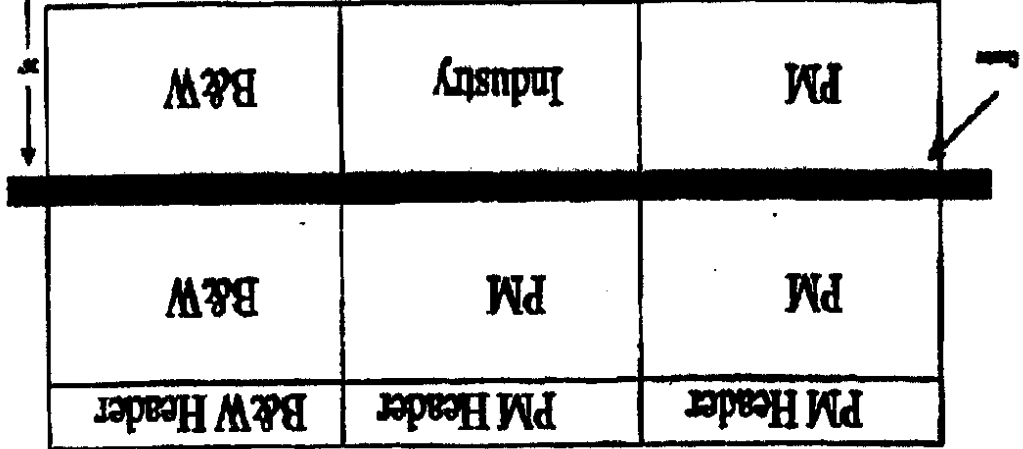
Jan 28.99 12:11 No.002 P.19

JAN 28 1999 14:05 FR 04 DEC 12 09:10Z NC 919 001 0375 TO 18104031300 P.01/03

Proposed Schematic-Fixtures on Floor Behind Counter

PM → CPL2
B&W → LEWC
} *carrots*

75%
25%



Plot of 2 fixtures conditions
could look
 ① = PM → 6' B&W → 2'
 ② = PM → 7' B&W → 3'
 ③ = PM → 4.5' B&W → 1.5'
 ④ = PM → 4.5' B&W → 1.5'
 2077369997

TOTAL PAGES 11

Prepared at the Request of Counsel
(RJ Reynolds Litigation)